



INVESTMENT POLICY

2017/2018 FINANCIAL YEAR

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INVESTMENT POLICY

1. Application and Scope

The Investment Policy is applicable to the Midvaal Local Municipality.

2. Objective of Policy

The objective of the policy is to ensure that all investments made by the Midvaal Local Municipality (“MLM”) comply with the Municipal Investment Regulations issued by the Minister of Finance in terms of the Municipal Finance Management Act. This Policy, as far as practically applicable, must be consistent with the Supply Chain Management Policy where long term investments are placed.

3. Legislative Framework

The legislative framework governing investment decisions are:

- Local Government Municipal Systems Act 32 of 2000 (as amended)
- Municipal Finance Management Act 56 of 2003
- Municipal Investment Regulations published under Government Gazette 27431 on 1 April 2005.
- Municipal Supply Chain Management Regulations published under Government Gazette 27636 on 30 May 2005.

3.1 Permitted Investments

The following are permitted investments in terms of the Regulation 6 of Municipal Investment Regulations:

“A municipality may invest funds only in any of the following:

Investment types as may be appropriate to the anticipated future need for the funds:

- (a) Securities issued by the national government.
- (b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognised Credit Rating Agency.
- (c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990)

- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984)
- (e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984).
- (f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990
- (g) Guaranteed endowment policies with the intention of establishing a sinking fund Finance
- (h) Repurchase agreements with banks registered in terms of the Banks Act, 1990
- (i) Municipal bonds issued by a municipality; and
- (j) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board."

3.2 Investments denominated in foreign currencies

MLM may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

4. Definitions

Short-term investments are defined as:

"Any cash or liquid securities owned by the MLM which have a maturity date, and/or callable date reasonably expected to be exercised, that is equal to or less than one year."

Long-term investments are defined as:

"Any cash or liquid securities owned by MLM which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year."

5. Purpose and Objectives of Investments

5.1 Preservation and safety of investments

The probable safety of the investment must in the first instance be considered when making investments. Preservation of capital is accomplished through placement of funds with creditworthy institutions and through portfolio diversification.

5.2 Investment Diversification

Diversification is required to minimise potential losses on individual securities and to maximise the yield from a blend of financial products.

5.3 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements.

5.4 Return on investments

The investment portfolio shall be designed with the objective of attaining a maximum rate of return subject to the investment risk constraints and liquidity requirements of MLM.

6. Standards of Care

6.1 Prudence

The Municipal Manager, in accordance with this policy, must exercise due diligence in carrying out the investment function. The MLM has a responsibility to invest public Finance funds with great care and is accountable to the community in this regard. Investments must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs. Investments may not be for speculation but must be genuine investments.

6.2 Ethics and Conflicts of Interest

Officials responsible for the investment of funds must steer clear of outside interference, regardless of whether such interference comes from individual Councillors, agents or any other institution. The ethical standards as contained in the Municipal Supply Chain Management Policy are “**mutatis mutandis**” applicable to investment activities. Interest rates offered should never be divulged to another institution.

6.3 Payment of Commission

No commission or other award may be paid to an official or councillor of MLM or to a spouse or close family in respect of any investment made or referred by MLM. If an investee pays any commission or other reward to an external investment manager appointed by the MLM in respect of any investment made by MLM, both the investee and the investment manager must declare such payment to the council by way of a certificate disclosing full details of the payment.

7. Delegation of Authority

Authority to manage MLM's investment portfolio is delegated as follows:

The Municipal manager to invest any amount (after taking due cognisance of the liquidity requirements of MLM) of the short-term funds in terms of the provisions of the investment policy

The Bid Adjudication Committee or Municipal Manager to approve the investment of long-term funds in terms of the provisions of the Investment Policy and Municipal Supply Chain Management Regulations in accordance with the process as stipulated in the Supply Chain Management Policy.

8. Rating of Financial Institutions

MLM shall rely on the credit analysis of the financial institutions as obtained from external Credit Rating Agencies. The Municipal Manager shall be made aware of real or potential problems related to credit or credit rating issues and their impact on the investment portfolio by the recognised Credit Rating Agencies, as this information becomes available.

9. Authorised Investments

All investments must be in the name of the MLM or one of the municipal entities.

10. Investment Limitations

10.1 General Investment Practice

10.1.1 Short-term investments

In order to obtain the greatest security for MLM's funds, short-term investments are not to be made with financial institutions with ratings lower than A1 / F1 as defined in the National Rating Definitions.

11. Investment Managers

Investment or Asset Fund Managers may be appointed to assist with the placing of investments, or to manage a portion of the investment portfolio in order to maximize interest earned without jeopardising liquidity. The appointment of these service providers must be done in accordance with the Supply Chain Management Policy. The conditions for their use including their liability in the event of non-compliance with this policy must be included in the bidding documentation specifying mandates that minimise risk and place the institutions on equal footing.

12. The Process of Investment of Funds

The process of investment of funds must in the first instance be made with the primary regard being to the probable safety of the investment in the second instance to the liquidity needs of MLM and lastly to the probable income derived from the investment. The investment of funds must be dealt with in accordance with the procedure for the calling of quotations and competitive bids as detailed in the Supply Chain Management Policy.

13. Safekeeping and Custody

The Chief Financial Officer shall establish and maintain an internal control structure designed to ensure the assets of the Municipality are protected from loss, theft, or misuse. The controls will be to prevent losses of public funds from fraud, employee errors, misrepresentation by third parties, or imprudent actions by employees and officers of MLM. The controls will include, among others:

- Control of collusion
- Separation of functions
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Specific limitations regarding security losses and remedial action
- Supervisory control of employee actions
- Minimising the number of authorised investment officials
- Effective data management and reporting system for investment activities
- Documentation of transactions and strategies.

14. Reporting

The Municipal Manager must, within 10 working days after the end of each month, submit to the Executive Mayor a report describing, in accordance with generally recognised accounting practice, the investment portfolio as at the end of the month. The above-mentioned report must set out the following:

- the market value of each investment as at the beginning of the reporting period;
- any changes to the investment portfolio during the reporting period;
- the market value of each investment as at the end of the reporting period; and
- fully accrued interest or yield for the reporting period.

A bank, insurance company or other Investment / Fund Managers which at the end of a financial year holds, or at any time during a financial year held, an investment for MLM, must:

- within 30 days after the end of that financial year notify the Auditor General, in writing, of that investment, including the opening and closing balances of that investment in that financial year and;
- promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

15. Policy Review

This policy will be reviewed annually by the Chief Financial Officer to ensure congruence with changing needs, technology, evolving regulatory standards with the MFMA, Investment regulations, and private sector best practices. The process to be followed for the annual revision of the policy will be via the committee system of Council as part of the annual Budget Process.